

BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

AGENDA

TUESDAY, SEPTEMBER 13, 2011

(Immediately Following the Retirement Board of Trustees' Meeting @ Approximately 2:30 P.M.)

COMMISSIONERS CHAMBERS

515 CENTER AVENUE - 4TH FLOOR

BAY CITY, MI 48708

PAGE	I.	CALL TO ORDER
	II.	ROLL CALL
	III.	MINUTES
1 - 3	A.	AUGUST 9, 2011 REGULAR MEETING
4 - 9	B.	AUGUST 23, 2011 SPECIAL MEETING
	IV.	PUBLIC INPUT
	V.	PETITIONS & COMMUNICATIONS
10- 11	A.	PORTFOLIO VALUE - 1/1/10 THROUGH 9/0711
	VI.	ANNOUNCEMENTS
	A.	NEXT REGULAR MEETING - TUESDAY, OCTOBER 11 2011 IMMEDIATELY FOLLOWING THE RETIREMENT BOARD OF TRUSTEES MEETING @ APPROX. 2:30 P.M., COMMISSIONERS CHAMBERS, 515 CENTER AVENUE - 4TH FLOOR, BAY CITY, MI 48708
	VII.	UNFINISHED BUSINESS
	VIII.	NEW BUSINESS
	IX.	MISCELLANEOUS BUSINESS
	X.	ADJOURNMENT

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 9, 2011

PAGE 1

The meeting, held in the Bay County Commissioners Chambers, 4th Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan was called to order by Chairman Gray at 2:46 P.M. Roll call was taken, all Trustees are present, except Rick Brzezinski.

1. Moved, supported and carried to excuse Trustee Brzezinski.
2. Moved, supported and carried to approve the minutes as presented from July 12, 2011 regular meeting.

Mr. Gray called for public input. Seeing no one from the public present, he moved on to petitions and communications.

3. Moved, supported and carried to receive the Portfolio Value January 1, 2010 through August 3, 2011. As of today it is \$26 million.
4. Moved, supported and carried to receive Atalanta Sosnoff performance report as of June 30, 2011.
5. Moved, supported and carried to receive the invoice from Northern Trust for the period ending June 30, 2011.

Rick Potter and Jeff Black from Becker, Burke Associates are present today to give us an update on the Investment Policy and to present second quarter investment performance analysis ending June 30, 2011. Jeff Black provided a handout to all Trustees indicating the recommended modifications. Last month they delivered a recommended edit to the Investment Policy for the VEBA that had some non specific areas where they were waiting for final approval on the asset allocation study and the target rate of return. They incorporated the decisions made at the last Board meeting into the recommended policy revisions.

Some discussion at this point. Trustee asks about the fact there is no provision in this VEBA account for real estate. Since we have real estate in the BCERS account and it is a high performer, he suggests we make a provision for real estate in the VEBA. Mr. Potter states that the Fund is comparatively small (30 million and 5% would be only 1.5 million). He is not sure that it would do a lot for us. Discussion among Trustees about discussions the Board has had over the last few months regarding expansion of this fund, and the expense involved in money manager searches. A study for one manager costs \$20,000. Another Trustee states that perhaps we should take it slow, and once we start to grow, we could look at other avenues which could possibly include real estate.

6. Moved, supported and failed to consider adding a real estate money manager to the VEBA fund.
7. Moved, supported and carried to adopt the recommendations made by Becker, Burke Associates to the VEBA Investment Policy, and for Corporation Counsel to review and approve the changes.

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 9, 2011

PAGE 2

Mr. Potter provided a handout to all Trustees regarding the Investment Performance Analysis as of June 30, 2011. This Fund started in January 2002 with \$879 thousand dollars. In this period of time we have added 21.6 million to it and we earned 6.9 million dollars on investments. Many municipalities do not fund their VEBA. By funding, we have created 7 million dollars from investments that we won't have to put into the fund in the future. It is a far sighted approach to VEBA.

Looking at growth in shorter time periods on a one year basis, we have made 4.8 million, at the one quarter, we were break even. We currently have 73.3% in Equities/Domestic Equities, 23.3% in Fixed Income/Domestic Fixed Income, and 3.4% in cash equivalents. That is a high equity commitment and one of the benefits they talked to us about having specialized managers will allow the Board of Trustees to control the amount of equity exposure.

Equities only for Atalanta Sosnoff has been poor. Becker Burke have had a couple of meetings with Atalanta regarding their performance. Atalanta attributes their under performance to the fact they are in very, very large companies and it has been the small companies that have been out performing. That fact is true, although he is not sure if that is the whole story. They will continue to keep a careful eye on Atalanta.

8. Moved, supported and carried to receive second quarter report from Becker, Burke Associates.

Announcements:

The next regular meeting is scheduled for Tuesday, September 13, 2011 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in the Commissioners' Chambers, 515 Center Avenue, 4th Floor, Bay City, Michigan 48708.

Unfinished Business: None

New Business:

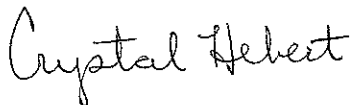
None

Miscellaneous Business: None

Adjournment:

9. Moved, supported and carried to adjourn at 3:06 p.m.

Respectfully submitted,



Crystal Hebert
Assistant Finance Officer/Secretary

Transcribed by: Naomi Wallace

MEETING OF THE **V.E.B.A.** BOARD OF TRUSTEES COMMITTEE

AUGUST 9, 2011

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4TH FLOOR,
BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR STEVE GRAY AT 2:46 P.M.

OTHER PRESENT: RICK POTTER, JEFF BLACK, DANEAN WRIGHT, CRYSTAL HEBERT

TRUSTEE	1	2	3	4	5	6	7	8	9	10
BRZEZINSKI	E	E	E	E	E	E	E	E	E	
CARPENTER	Y	Y	Y	S	Y	N	Y	Y	Y	
COONAN	Y	S	Y	Y	Y	N	S	M	M	
DEATON	S	Y	Y	Y	Y	S-N	Y	Y	Y	
GRAY	Y	Y	Y	Y	Y	N	Y	Y	Y	
PELTIER	Y	Y	Y	Y	Y	N	Y	Y	Y	
PETT	Y	Y	S	M	S	N	Y	Y	Y	
RYDER	M	M	M	Y	M	N	M	S	S	
STARKWEATHER	Y	Y	Y	Y	Y	M-N	Y	Y	Y	

TRUSTEE	11	12	13	14	15	16	17	18	19	20
BRZEZINSKI										
CARPENTER										
COONAN										
DEATON										
GRAY										
PELTIER										
PETT										
RYDER										
STARKWEATHER										

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 23, 2011

PAGE 1

The meeting, held in the Bay County Commissioners Chambers, 4th Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan was called to order by Chairman Gray at 9:06 A.M. This is a special meeting of the VEBA to review the money managers selected by Becker Burke and Associates. Based on this presentation, the Trustees will decide which managers they want to interview.

Roll call was taken, all Trustees are present, except Ann Carpenter, Kim Coonan, Shari Peltier, and Mr. Starkweather. Ms. Carpenter and Ms. Peltier both asked to be excused.

Mr. Gray called for public input. Seeing no one from the public present, he moved on to petitions and communications.

Rick Potter and Mary Nye from Becker, Burke Associates are present today to present profiles for Small and Mid Cap Equity and Core Fixed Income money managers. Ms. Nye has been involved in all the money manager searches for Bay County. They provided a handout to all Trustees with profiles on five Small and Mid Cap Growth managers. The handout explained the actual search process and a summary sheet on all five managers profiled. The five Small and Mid Cap Growth money managers profiled were:

Trustee Starkweather arrives at 9:21 a.m.

Ms. Nye reviewed each money manager, discussing their organization, portfolio management, performance attribution, personnel, and fees.

The Boston Company, Boston, Massachusetts: Their product assets are on the smaller side when compared to the other candidates. Their strategy emphasizes valuation, fundamental improvement and the presence of a revaluation catalyst. Team consists of one portfolio manager and seven analysts.

Columbia Wanger Asset Management, Chicago, Illinois: They are a well diversified firm with an investment style of growth at a reasonable price. The names in the portfolio will have a little more growth aspect, and the earnings of the companies will be a little higher in the names they hold versus the other candidates. Litigation matters were listed on page six. Their team consists of two portfolio managers and twenty-two analysts.

Eagle Asset Management, St. Petersburg, Florida: They look for companies that exhibit self sustaining growth through substantial cash earnings and employ conservative accounting. Their team consists of two portfolio managers and four analysts. This is a different team with different products than the one that currently manages the BCERS fund, although they may share overall company philosophies.

Hermes Investment Management (North America), London, England: Their strategy is based on fundamental, bottom-up stock picking. They look for companies that might meet their definition of quality. The criteria used to define quality are: durable competitive

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 23, 2011

PAGE 2

advantage, sustainable growth, management integrity, talent and vision, strong balance sheet, cash generation, capital discipline. Basically, they are looking for stability and financial strength. Their team consists of two portfolio managers and one analyst. They are based out of London, England, but do have marketing staff in Boston, Massachusetts.

Lord, Abbett & Co. LLC, Jersey City, New Jersey: They are 100% employee owned by fifty-five individuals. Their process is bottom-up and focuses on the risk and opportunities on a company-by-company basis. This company is more value oriented of the five candidates. They look to identify new product introductions, divestitures, acquisitions, and companies sensitive to general economic trends. Their team consists of two portfolio managers, one dedicated analyst, and 24 firm wide analysts.

The handout provided charts indicating performance for each of the Small and Mid Cap Growth candidates. Some questions and discussion regarding how they may perform during down markets.

Trustee Ryder makes a motion to exclude The Boston Company and interview the remaining four. It is the Chairman's preference to interview the four Small and Mid Cap managers on one day, and schedule the Core Fixed Income Managers on a separate day. Trustee Starkweather offered an amendment to the motion, but then withdrew it.

Roll Call on the Motion:

Brzezinski - yes
Carpenter - excused
Coonan - excused
Deaton - yes
Gray - yes
Peltier - excused
Pett - yes
Ryder - yes
Starkweather - yes

1. Moved, supported and carried to exclude The Boston Company, and interview the remaining four candidates.

Trustee requested of Mr. Potter that the prospective candidates include a list of the number of clients they currently have. Brief recess is taken at this time. Meeting resumes at 10:40 a.m. Ms. Nye presents the profiles on Core Fixed Income Investment Managers.

Ms. Nye states that in addition to the four candidates in this category, they added an Index Fund as a possibility for conversation. On the performance chart they have included two extra names: Comerica Bank Index Fund and Vanguard Index Fund. Index Funds are basically a quantitative model trying to replicate the market. An Equity you can pretty much buy every security and replicate it exactly, but in a Fixed Income there are so many, it is impossible to buy every single bond. So, they buy bonds with similar characteristics so the overall portfolio is similar or almost identical in character to the index. When the firms come in they will tell you they have a unique process,

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 23, 2011

PAGE 3

but at the end of the day, they are just replicating the index. You just want to see that the performance matches the index, and then how cheap can you get it. It is a commodity at that point.

C.S. McKee, Pittsburgh, Pennsylvania: The firm is 100% employee-owned. They use an active, bottom-up approach that is opportunistic in nature. Their intent is to outperform the benchmark and maintain liquidity by managing risk exposures. In Fixed Income it is similar to equity in the fact that there is a bottom-up process in looking at individual securities versus top-down. In Fixed Income the top-down overlay is much more important because in Fixed Income bonds are definitely impacted by interest rates and economic conditions.

C.S. McKee sector rotates, which means they move in and out sectors quite a bit. Their presentation from one quarter to the next could indicate movement because they have bought and sold bonds. The negative thing about that is that you can make your own call. So if you move to Treasuries, and Treasuries take a dive, performance for that period of time (one or two quarters) will not be too good. So the question is do you stay in treasuries hoping they will bounce back up, or take the loss and move on to something else. That is the one negative about any type of top-down call, that if the wrong call is made, you will be impacted by under performance.

Their team consists of three portfolio managers, one CIO, and one analyst. They do have a few equity portfolio managers, which get together with the fixed income managers and set policy for the firm.

All the firms are going to be investment grade, high quality, which means the ratings have to be AAA, AA, A, or BBB. Triple B being the lowest rating, should it be downgraded to BB, the firm will analyze why, and make a determination if they will continue to watch it and see if it comes back, or if they should sell it.

Of the four candidates, C.S. McKee has the widest band for duration. This can be looked at as a "risk measure". They are allowing themselves some leeway.

Garcia Hamilton & Associates, Houston, Texas: The firm is 100% employee-owned. Their philosophy focuses on the preservation of principal while maintaining high current income. They are the only firm in this group that basically invests bonds using the top-down approach. They are making a call on the yield curve management, the interest rate, and sector rotation. They do not spend time doing issue selection, or analysis on individual bonds. They make their decision on where they want to be on the yield curve, what kind of duration they want to be, what type of sectors they want to be in. If interest rates are rising or falling, they look at bonds that would be beneficial to that and then they buy high quality bonds in those spaces. Their team consists of three portfolio managers and four analysts.

J.P. Morgan, New York, New York: They are a publicly traded financial services holding company. This company believes there are

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 23, 2011

PAGE 4

inefficiencies in the fixed income market, and that their approach can take advantage of those inefficiencies. The investment process is primarily bottom-up and value-based. The turn over for bonds is relatively low, 10-21%, they tend to hold them for long periods of time. The investment team for the proposed Core Fixed Income product is based in Columbus, Ohio. Their team consists of thirteen portfolio managers, and sixteen analysts.

Segall Bryant & Hamill, Chicago, Illinois: This company is owned by the members of the professional staff (62%) and Dougherty Financial Group (38%). They focus exclusively on managing investment grade fixed income portfolios. They believe that strong risk-adjusted returns can be achieved by employing a disciplined investment process that incorporates both top-down and bottom-up analysis and focuses on long-term relative value. Their team consists of two portfolio managers, and four analysts.

Charts were provided indicating performance for each of these four candidates.

Motion made to exclude J.P. Morgan. Some discussion about J. P. Morgan and their involvement in purchasing Wachovia, a manufacturer of commercial pass through mortgage certificates. Mr. Potter states that banks may buy mortgages for the bank portfolio not necessarily for pension fund portfolios for pension fund clients. Because they have mortgage backed securities does not necessarily mean they have the Wachovia mortgages. Really bad mortgages would show up in the investment performance, and the investment performance of this separately managed account of J. P. Morgan is strong. Ms. Nye states that J.P. Morgan has different divisions, i.e. banking, asset management, etc., which have walls between them, especially asset management. She thinks that bad bonds such Wachovia would more likely be on the banking side. Also, with the fiduciary trust, it is unlikely they would be involved in something like this. However, it is up to the Board of Trustees on who they choose to interview.

2. Moved, supported and carried to exclude J.P. Morgan from further consideration.

Trustee asked for clarification of Index versus Active Managers, and the pros and cons of each. Becker Burke responds that the pro would be low fees. Looking at the five year record for Active Managers, they have earned their fees plus some. Regarding Index Funds, fees are cheaper and you look at index returns. Regarding performance, there are many schools of thought, but Becker Burke feels that active managers tend to add value and out perform over long periods of time.

3. Moved, supported and carried to interview Garcia Hamilton & Associates, C.S. McKee, and Segall Bryant & Hamill.

Trustees select Wednesday morning, September 7, 2011 at 8:00 a.m. to interview the Small Mid Cap candidates. Trustees decide to have a morning meeting on Tuesday, September 13, 2011 at 9:00 a.m. to interview the three Core Fixed Income managers.

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

August 23, 2011

PAGE 5

4. Moved, supported and carried to excuse Trustees Kim Coonan, Ann Carpenter, and Shari Peltier.

Announcements:

The next regular meeting is scheduled for Tuesday, September 13, 2011 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in the Commissioners' Chambers, 515 Center Avenue, 4th Floor, Bay City, Michigan 48708.

Unfinished Business: None

New Business: None

Miscellaneous Business: None

Adjournment:

5. Moved, supported and carried to adjourn at 11:35 a.m.

Respectfully submitted,



Crystal Hebert
Assistant Finance Officer/Secretary

Transcribed by: Naomi Wallace

MEETING OF THE **V.E.B.A.** BOARD OF TRUSTEES COMMITTEE

AUGUST 23, 2011

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4TH FLOOR,
BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR STEVE GRAY AT 9:06 A.M.

OTHER PRESENT: RICK POTTER, MARY NYE, DANEAN WRIGHT

TRUSTEE	1	2	3	4	5	6	7	8	9	10
BRZEZINSKI	S - Y	S	M	S	Y					
CARPENTER	E	E	E	E	E					
COONAN	E	E	E	E	E					
DEATON	Y	Y	Y	Y	Y					
GRAY	Y	Y	Y	Y	Y					
PELTIER	E	E	E	E	Y					
PETT	Y	Y	Y	Y	Y					
RYDER	M - Y	Y	Y	M	S					
STARKWEATHER	Y	M	S	Y	M					

TRUSTEE	11	12	13	14	15	16	17	18	19	20
BRZEZINSKI										
CARPENTER										
COONAN										
DEATON										
GRAY										
PELTIER										
PETT										
RYDER										
STARKWEATHER										

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED

VEBA PORTFOLIO VALUE

	<u>DODGE & COX</u>	<u>CASH</u>	<u>TOTAL</u>
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2010

JAN	12,100,888.44	105,522.40	10,584,016.91	22,790,427.75
FEB	12,337,748.85	127,194.75	10,902,240.56	23,367,184.16
MARCH	13,054,743.31	826,655.02	11,327,907.01	25,209,305.34
APRIL	13,991,588.85	244,134.22	11,358,311.61	25,594,034.68
MAY	13,222,769.10	141,086.32	10,679,294.83	24,043,150.25
JUNE	12,809,573.46	125,391.14	10,257,371.77	23,192,336.37
JULY	13,587,649.86	145,077.38	10,694,615.84	24,427,343.08
AUG	13,124,702.33	73,270.04	10,297,435.85	23,495,408.22
SEPT	14,114,246.44	68,829.93	10,930,245.09	25,113,321.46
OCT	14,577,087.64	235,229.40	11,314,209.87	26,126,526.91
NOV	14,475,844.80	285,665.83	11,307,156.37	26,068,667.00
DEC	15,542,608.55	48,361.72	11,636,968.32	27,227,938.59

	<u>DODGE & COX</u>	<u>CASH</u>	<u>ATALANTA SOSNOFF</u>	<u>TOTAL</u>
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2011

JAN	15,922,942.49	300,739.41	11,793,776.01	28,017,457.91
FEB	16,667,670.02	581,913.36	11,986,233.04	29,235,816.42
MARCH	17,123,304.53	121,095.35	12,011,362.73	29,255,762.61
APRIL	17,675,739.11	98,063.83	12,154,202.79	29,928,005.73
MAY	17,726,476.07	212,246.98	12,036,752.17	29,975,475.22
JUNE	17,547,728.26	1,485.83	11,875,396.11	29,424,610.20
JULY	17,060,888.70	70,134.43	11,801,134.06	28,932,157.19
AUG	16,187,340.87	43,385.81	11,169,054.28	27,399,780.96
SEPT				0.00
OCT				0.00
NOV				0.00
DEC				0.00

2011

(10)

◆ Mgr Mix VEBA

Account Name/ Account Number	Cash/ % of account	Short Term/ % of account	Equity/ % of account	Fixed/ % of account	R, E, and Other/ % of account	Pendings/ % of account	Total market value/ % of consolidation
BAYCO-VEBA CASH 2611831	-40,000.32 -100.00%	40,000.32 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	40,000.32 0.15%
BAYCO - VEBA DODGE & COX BAL 2613001	-0.07 0.00%	0.07 0.00%	15,877,460.61 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	15,877,460.68 58.88%
BAYCO - VEBA ATALANTA SOSNOFF 2646670	-317,035.35 -2.87%	317,035.35 2.87%	6,475,900.03 58.65%	4,119,573.64 37.31%	0.00 0.00%	129,963.07 1.18%	11,042,472.09 40.96%
Total for consolidation	-357,035.74	357,035.74	22,353,360.64	4,119,573.64	0.00	129,963.07	26,959,933.09
% for consolidation	-1.32%	1.32%	82.91%	15.28%	0.00%	0.48%	100.00%

